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Pacific Leasing Corporation Limited

8th ANNUAL REPORT
TO THE SHAREHOLDERS
YEAR ENDED JANUARY 31, 1968

PLC

1968 ANNUAL REPORT

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TO THE SHAREHOLDERS
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PLC

DIRECTORS

R. Murray Brink, O.B.E. .... Vancouver, B.C.
President — Johnston Terminals Limited

John F. Coulter .... Vancouver, B.C.
Partner — Coulter, Bryant & Co.

Alan M. Eyre .... Vancouver, B.C.
President — Dueck on Broadway Limited

Frank F. Rush .... Vancouver, B.C.
President of the Company

Dr. George E. Rush .... Ogden, Utah
Research Director —
Amalgamated Sugar Company

Wm. E. Thomson .... Vancouver, B.C.
President — Pemberton Securities Ltd.

Wm. F. Vaughan .... Vancouver, B.C.
President — Power Holdings Limited

OFFICERS

FRANK F. RUSH .... President

ALAN M. EYRE .... Vice-President

R. D. JEWETT .... Secretary

MRS. E. M. FINDLAY .... Treasurer

TRUSTEE

Crown Trust Company .... Vancouver, B.C.
: Series A, B and C Collateral Trust Notes
: Series A, B and C Debentures

REGISTRAR AND TRANSFER AGENT

Crown Trust Company .... Vancouver, B.C.
: Series A, B and C Collateral Trust Notes
: Series A, B and C Debentures

Montreal Trust Company .... Vancouver, B.C.
: Preferred Shares — Series B
: A and B Common Shares

BANKERS

The Royal Bank of Canada .... Vancouver, B.C.

SOLICITORS

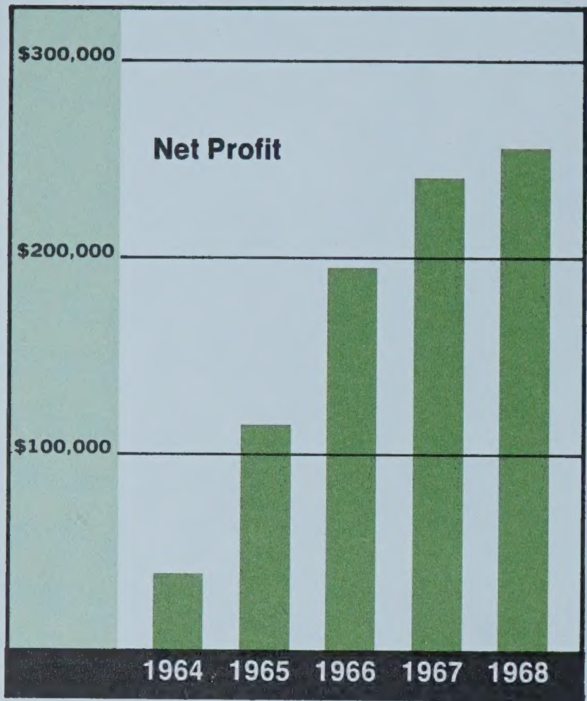
Buell, Ellis, Sargent & Russell .... Vancouver, B.C.

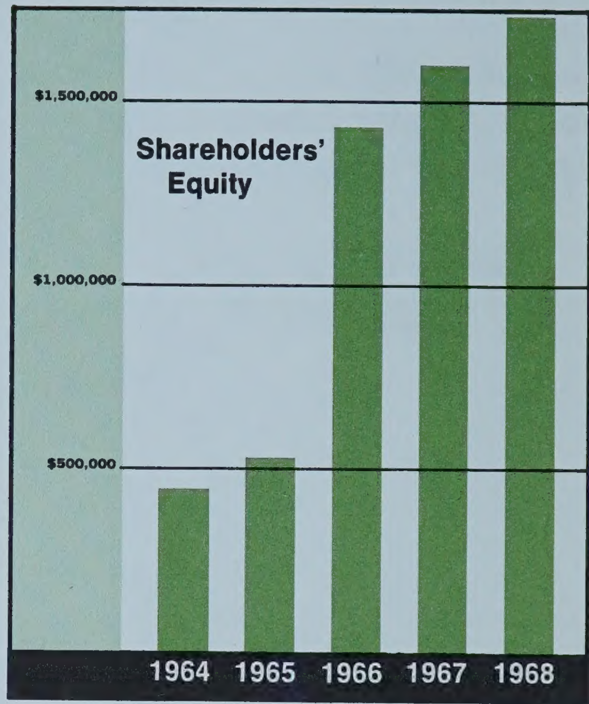
AUDITORS

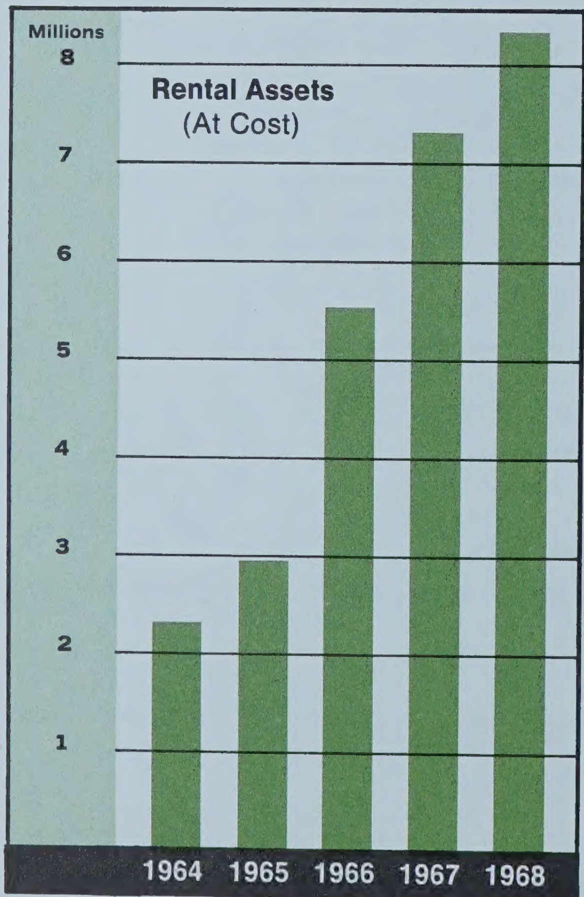
Touche, Ross, Bailey & Smart .... Vancouver, B.C.

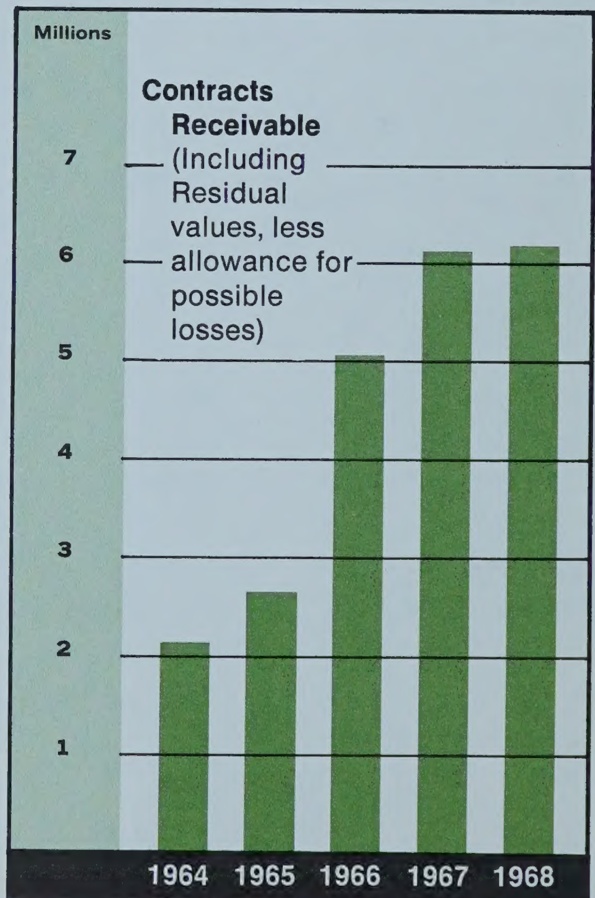
OFFICE

2256 West 12th Avenue .... Vancouver, B.C.
Telephone 731-4969


$300,000
$200,000
$100,000
Net Profit
1964 1965 1966 1967 1968


$1,500,000
$1,000,000
$500,000
Shareholders' Equity
1964 1965 1966 1967 1968


Millions
8
7
6
5
4
3
2
1
Rental Assets (At Cost)
1964 1965 1966 1967 1968


Millions
7
6
5
4
3
2
1
Contracts Receivable (Including Residual values, less allowance for possible losses)
1964 1965 1966 1967 1968

To Our Shareholders:

It is a pleasure to submit to you the Eighth Annual Report of your Company, covering the twelve-month period ending January 31, 1968.

REVENUE & PROFITS

The results for the year have been quite satisfactory, despite the well known difficulties and adverse circumstances associated with tight money supply and the high interest rates in force.

Earned income has increased 8.9% from $596,445 to $649,765. After providing for tax payments of $27,221 the net profit was $250,460 which compares with $242,137 for the previous year.

After paying dividends of $1.50 per share on the Series B Preferred Shares, the profit attributable to holders of Common Shares amounts to $4.56 per share and compares with $4.39 for the preceding period.

GROWTH

During the course of the year your Directors paid continual attention to the possibilities of raising additional amounts of debt capital, carefully weighing the advantages and disadvantages of such a step. However, in view of the ultimate high cost level of further funds at this time, it was considered that the best course would be to defer any action which could well result in short term gains and long term costs.

Under the prevailing circumstances your Company has been operating on funds generated internally during the past year, and for some months prior to that. Consequently, the impressive growth trend maintained in the past has been temporarily slowed down. Never-the-less, at the end of the year the value of contracts receivable (including residual values and renewals, minus a reserve for possible contract losses) was $6,169,171, a slight increase over the comparable figure of $6,112,734 for the previous year.

The cash flow available for re-investment in lease contracts, and on which the Company relied so heavily during the year, amounted to $1,517,800. The comparable figure for last year was $1,281,270.

The growth pattern of your Company that has developed over the last five years is clearly illustrated by the graphs appearing on the opposite page.

INCOME TAX

The Company is in the business of acquiring capital assets on a continuing, and hopefully, an expanding basis. In consequence, there are advantages to the Company in the timing of the tax liabilities that accrue. The "tax allocation" method of treating income tax, which the Company has always employed, reflects these advantages.

Full capital cost allowances have been claimed for this year thereby making it possible to minimize the Company's income tax liability for the period to an amount of $27,221. This figure could be appreciably increased in future years if the growth pattern established during previous years is not maintained.

The Canadian Institute of Chartered Accountants has recommended that all companies using the "tax payable" method change to the "tax allocation" method whereby income taxes that are temporarily reduced or postponed are allocated to the current year's expenses and set up in the Balance Sheet as a non-current liability.

The Institute suggests that the change be made at the latest, for fiscal years starting after December 31, 1967. During the coming year your Directors will give serious consideration to their recommendations.

DIVIDENDS

Dividends at the rate of $1.50 per share were paid on the Series B Preferred Shares. The rate on the Class A and B Common Shares was increased from 20¢ to 25¢ quarterly with the payment of Dividend No. 19 on June 1, 1967. The total of dividends paid during the year on Preferred and Common Shares was $81,222. For a full year at the new rate the total outlay for dividend payments would be $83,500. This is a modest increase over the figure of $73,926 for the previous year, and is still relatively low in light of the earnings performance.

OUTLOOK

The demand for, and the acceptance of, leasing services continues to grow. This is particularly noticeable amongst some of the more substantial and sophisticated industrial concerns that in the past have been content to rely on more traditional sources for the supply of capital funds.

It is anticipated that there will be an improvement in the availability of capital funds in the coming year. In this regard your Directors will be paying close attention to the situation with the intention of raising additional funds at the earliest practical time.

Similarly, it is expected that the coming year will see a demand for all the funds that your Company can make available, and with any reasonable improvements in the money situation, contracts written will show a gain over the year immediately past.

PERSONNEL

The diligent efforts and whole-hearted co-operation of the staff have contributed, in no small measure, to the successful operation of the Company. It is a pleasure to record on behalf of the Directors, recognition of their endeavours and to express appreciation for the important part they have played.

ANNUAL MEETING

The Annual Meeting of the Shareholders of the Company will be held at 11:30 a.m. on Monday, April 29 next in the Tudor Room of the Georgia Hotel, 801 West Georgia Street, Vancouver, B.C.

Class A Common Shareholders and Preferred Shareholders are not entitled to vote at the meeting. Never-the-less, they, as well as the Class B Shareholders, are cordially invited to attend.

Frank F. Rush

April 17, 1968. FRANK F. RUSH, President

Pacific Leasing Corporation Limited

AND ITS WHOLLY-OWNED SUBSIDIARY

Consolidated Balance Sheet as at January 31, 1968

(WITH COMPARATIVE FIGURES FOR 1967)

ASSETS

	1968	1967
Cash	$ 12,416	$ 52,780
Lease contracts receivable, and other contracts due in instalments to 1975, less allowance for possible losses on lease contracts $94,409; (1967 $94,961) — (Note 1)	5,369,402	5,366,205
Rentals receivable	86,873	74,115
	5,456,275	5,440,320
Rental equipment — at estimated residual value (Note 2)	799,769	746,529
Prepaid expenses	4,490	5,122
Equipment and office furnishings — at cost less accumulated depreciation $9,499; (1967 $8,557)	6,914	8,522
Discount and expenses of long-term debt less amounts amortized	60,530	78,030
Commission on issue of preferred shares	—	17,252
5% special refundable tax	38,698	30,912
	$6,379,092	$6,379,467

On behalf of the Board:

"FRANK F. RUSH," Director

"ALAN EYRE," Director

STATEMENT I

LIABILITIES AND SHAREHOLDERS' EQUITY

		1968	1967
Current:			
Bank loan (secured by Collateral Trust Notes Series A)		$1,065,000	$1,160,000
Accounts payable		122,226	87,006
Accrued interest		45,728	44,998
Income tax payable (Note 4)		22,321	2,450
Special refundable tax payable		3,086	8,248
Long-term debt due within one year	$59,500		
Less: Bonds held for redemption, and deposits with sinking fund Trustee	13,675	45,825	18,094
		1,304,186	1,320,796
Long-term debt (Note 3):			
Sinking fund debentures			
7% Series A due November 15, 1975		106,500	116,500
7% Series B due October 1, 1977		126,500	136,500
6¾% Convertible Series C due August 15, 1981		500,000	500,000
Collateral Trust Notes			
6% Series B due May 1, 1973		650,000	650,000
6¼% Series C due May 15, 1980		765,000	800,000
		2,148,000	2,203,000
Deferred liabilities:			
Lease rentals received in advance		108,795	101,948
Unearned income on lease contracts (Notes 1 and 4)		1,063,214	1,152,112
		1,172,009	1,254,060
Shareholders' equity:			
Share capital (Note 5)			
Preferred shares			
Authorized, issued and fully paid			
24,500 6% cumulative, redeemable exchangeable shares — Series B of $25 par value		612,500	612,500
Common shares			
Authorized			
100,000 Class A and 25,000 Class B shares of $10 each			
Issued and fully paid			
24,070 Class A shares (1967—23,940)		240,700	239,400
22,810 Class B shares		228,100	228,100
		1,081,300	1,080,000
Surplus			
Contributed — premium on sale of 'B' preferred shares		1,841	1,841
Retained earnings — Statement III		671,756	519,770
		1,754,897	1,601,611
		$6,379,092	$6,379,467

The notes to the financial statements are an integral part thereof.

Pacific Leasing Corporation Limited

AND ITS WHOLLY-OWNED SUBSIDIARY

Consolidated Statement of Income
For the Year Ended January 31, 1968

(with comparative figures for 1967)

STATEMENT II

	1968	1967
INCOME:		
Income earned on lease contracts (Note 4)	$648,362	$587,047
Other income	1,403	9,398
	649,765	596,445
EXPENSES:		
Administrative expenses (including depreciation 1968 $1,714; 1967 $2,368)	122,163	131,594
Interest and finance charges		
Interest on long-term debt	141,696	124,951
Other interest and finance charges (including amortization of long-term debt costs 1968 $18,000; 1967 $17,804)	108,225	90,413
	372,084	346,958
Income before provision for income taxes	277,681	249,487
Provision for income taxes (Note 4)	27,221	7,350
Net income for the year	$250,460	$242,137

Consolidated Statement of Retained Earnings
For the Year Ended January 31, 1968

(with comparative figures for 1967)

STATEMENT III

	1968	1967
Balance at beginning of year	$519,770	$351,559
Less:		
Commission on preferred shares, written off	17,252	
	502,518	
Add:		
Net income for the year — Statement II	250,460	242,137
	752,978	593,696
Deduct:		
Dividends paid		
Preferred shares	36,750	36,750
Common shares	44,472	37,176
	81,222	73,926
Balance at January 31, 1968	$671,756	$519,770

The notes to the financial statements are an integral part thereof.

Auditors' Report to the Shareholders

The Members, Pacific Leasing Corporation Limited.

We have examined the accompanying consolidated balance sheet of Pacific Leasing Corporation Limited and its wholly-owned subsidiary as at January 31, 1968 and the consolidated statements of income and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements present fairly the financial position of the company and its subsidiary as at January 31, 1968 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
March 14, 1968.

TOUCHE, ROSS, BAILEY & SMART,
Chartered Acountants.

Notes to Financial Statements as at January 31, 1968

Note 1

Lease contracts receivable include $1,975,389 being payments due within one year. The corresponding portion of unearned income is $517,543.

Note 2

The cost of rental equipment shown on the balance sheet at estimated residual value of $799,769 at January 31, 1968 was $8,365,529. At that date the company had commitments for the purchase of rental equipment of approximately $470,000.

Note 3

The long-term debt shown as $2,148,000 comprises the following:

	7% Sinking Fund Debentures		6¾ % Convertible Sinking Fund Debentures	Collateral Trust Notes	
				6%	6¼ %
	Series A Due November 15, 1975	Series B Due October 1, 1977	Series C Due August 15, 1981	Series B Due May 1, 1973	Series C Due May 15, 1980
Authorized	$175,000	$175,000	$500,000	$650,000	$800,000
Issued in previous years	$175,000	$175,000	$500,000	$650,000	$800,000
Less: Redeemed to date	54,000	38,500	—	—	—
Outstanding	121,000	136,500	500,000	650,000	800,000
Deduct: Retirements required within one year, transferred to current liabilities	14,500	10,000	—	—	35,000
Balances — Statement I	$106,500	$126,500	$500,000	$650,000	$765,000

In addition, $1,065,000 Series A Collateral Trust Notes are held by the company's bankers as security for the company's bank loan.

Security

The collateral trust notes are secured by lease contracts receivable amounting to $5,214,018 pledged as collateral.

Note 3 (continued)

Terms of Minimum Repayment

Series A debentures	1975	$10,000 annually—sinking fund
Series B debentures	1977	$10,000 annually—sinking fund
Series C convertible debentures	1981	$25,000 annually (1969-1981)—sinking fund
Series B collateral trust notes	1973	at maturity
Series C collateral trust notes	1980	$35,000 1968-1979—sinking fund

Restrictions on dividends and redemption of shares

Under the terms of issue of the 7% Series A sinking fund debentures, the company has covenanted that not more than one-half of its earnings available for dividends will be paid out as dividends or for redemption of shares. At January 31, 1968 one-half of earnings available for dividends exceeded dividends paid to date by $224,800. No shares have been redeemed out of earnings.

Conversion rights—Series C debentures

The debenture holders may, up to August 14, 1976, convert each one thousand dollar debenture into forty-five Class A common shares.

Note 4

Under the company's method of accounting for income on lease contracts, unearned income (representing the excess of total rentals receivable over the cost of the related rental equipment less its estimated residual value at the end of the prime period of the lease) is taken into earnings on the sum-of-the-digits basis.

For income tax purposes lease rental payments are taxable in the year receivable and capital cost allowances are claimed in respect of the cost of the rental equipment as permitted by the taxation authorities. As a result, income taxes which would otherwise have been applicable, were reduced by approximately $110,000 in 1968 and, in the aggregate to date, by $387,200.

Note 5

The changes in issued share capital during the year are set out in the following tabulation:

	6% Cumulative, Redeemable Exchangeable Preferred Shares	Common Shares	
	Series B $25 each	Class A $10 each	Class B $10 each
Issued and fully paid at January 31, 1967	24,500	23,940	22,810
By exercise of warrants			
Class A common issued for cash	—	130	—
Issued and fully paid at January 31, 1968	24,500	24,070	22,810

At January 31, 1968 unissued shares were in part reserved for the exercise of share warrants, options, and conversions as follows:

> 48,430 Class A common shares for the exercise of warrants attached to the debentures to purchase Class A common shares at $10 per share up to November 15, 1970, for the exchange of 24,500 Series B preferred shares on a share-for-share basis up to December 14, 1975, and for the conversion of Series C debentures on a basis as described in Note 3.

Note 6

The nature of a leasing company's business is such that a statement of source and application of funds is not meaningful and accordingly such a statement has not been prepared.